

February 22, 2022

M S Ramaiah Developers and Builders Pvt Ltd: [ICRA]BBB+ (Stable) reaffirmed for LRD loans; rated amount enhanced; rating withdrawn for CF loan

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – LRD loan	408.00	581.00	[ICRA]BBB+(Stable) reaffirmed
Long-term Fund-based – Term loan	122.00	-	[ICRA]BBB(Stable) withdrawn
Long term – Unallocated	-	4.00	[ICRA]BBB+(Stable) reaffirmed
Total	530.00	585.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the rating continues to factor in the strong business profile of M S Ramaiah Developers and Builders Pvt Ltd (MSRDB)'s commercial office asset, Helios Business Park, which is relatively a new property located favourably in Outer Ring Road at Kadubeesanahalli, a hub for information technology (IT) and other multi-national companies in Bangalore. The rating takes note of the increase in the MSRDB's leasable area share in Helios Business Park with completion of Wing E encompassing 4.8 lakh square feet (lak sft), resulting in a total leasable area of 14.0 lak sft. MSRDB's share of area in Wing B and C of the park continues to operate at 100% occupancy level with major tenants including Goldman Sachs and Sandisk. The leases have long tenures and lock-in clauses, which support revenue visibility over the long term. The rating also positively factors in the prepayment of the construction finance loan taken against the MSR Pacman project by raising additional lease-rental discounting (LRD) loan. The ratings also take into account the profile of the promoters, who have significant land holdings and interests in various real estate developments in commercial and residential space.

The rating is, however, constrained by the high market risk pertaining to the leasing of the remaining space of 3.2 lak sft in Wing E in Helios Business Park and in the under-development asset, MSR Pacman. Notwithstanding additional lease tie-ups of 1.6 lak sft during FY2022, the leasing progress has been slower than earlier expectations due to the adverse impact of the pandemic on new leasing. ICRA takes note of the delay in completion of MSR Pacman by around six months due to the disruptions caused by second wave of the covid-19 pandemic with revised expected completion by March 2022. Nonetheless, market risks are partly mitigated by the absence of any construction debt against the MSR Pacman development. The rating remains constrained by the high leverage and modest debt-coverage metrics estimated for FY2022 and FY2023 due to increase in debt levels on refinancing of LRD debt. Timely leasing of the remaining space in Wing E and MSR Pacman will be critical for improving the leverage and debt-coverage metrics. The ratings also take into consideration the high tenant concentration risk, with two large tenants, Goldman Sachs and Sandisk, occupying ~81% of the total leased space.

ICRA has withdrawn the rating of [ICRA]BBB(Stable) assigned to the construction finance debt of Rs 122.0 crore as it has been repaid in full and there is no amount outstanding against the same.

The Stable outlook reflects ICRA's expectation that the favourable asset profile and the long-term leases with reputed tenants will support the operational and financial profile of the company.

Key rating drivers and their description

Credit strengths

Favourable asset profile with healthy level of occupancy: The company has jointly developed Helios Business Park with Kalyani Tech Park Private Limited in FY2018 with a total leasable area of 27.0 lak sft in which MSRDB has a leasable area share of 14.0 lak sft. The asset is located in Outer Ring Road at Kadubeesanahalli in east Bengaluru which is the hub for IT and other multi-national companies. Wing B and C is fully leased to tenants including Goldman Sachs and Sandisk. The leases have long tenures and lock-in clauses, which support revenue visibility over the long term. Goldman Sachs occupies built-to-suit office space at a competitive rental rate, which reduces vacancy risk.

Closure of construction finance loan: The company is currently developing MSR Pacman, an office asset in Nagwara in north Bangalore in joint development with Micro Constructions (land owner) with a leasable area share of 2.5 lak sft (MSRDB's share). The construction finance loan of Rs 101.0 crore that was outstanding as of October 2021 was fully repaid and closed by raising additional LRD debt. The pending capital expenditure in this asset is only around Rs 25.0 crore and will be funded by the undrawn limit of Rs 37.7 crore available as on November 30, 2021.

Track record of promoters: The promoter of the Group, Mr. M R Seetharam, has interests in the real estate and the education sectors. Mr M R Seetharam has multiple land banks in Bengaluru, which are in various stages of development. He also serves as the vice chairman and trustee in Gokula Education Foundation and advisor in Gokula Education Foundation (Medical) which operate various educational institutions

Credit challenges

Market risks for projects under development: MSRDB is exposed to high market risk with respect to the leasing of the remaining space of 3.2 lak sft in Wing E in Helios Business Park and its share of space of 2.5 lak sft in MSR Pacman. Nonetheless, market risks are partly mitigated by the absence of any construction debt against the MSR Pacman development.

High tenant concentration: The company has a moderate scale of operations, with Helios Business Park being the only operational asset as on date. The Group is also exposed to tenant concentration risk with its large tenants - Goldman Sachs and Sandisk occupying 81% of the leased area. Nonetheless, with completion and leasing of MSR Pacman, the tenant concentration risk is expected to reduce going forward.

High leverage and modest debt coverage metrics in near term: The company's leverage remains high with the refinancing of both the LRD debt with top-up amounts. The debt-coverage metrics estimated for FY2022 and FY2023 is estimated to remain modest. Hence, timely leasing of remaining space in Wing E and MSR Pacman will be critical for improving the leverage and debt-coverage metrics.

Liquidity position: Strong

The company's liquidity position is improved and is Strong with cash and bank balances of Rs 23.0 crore as on February 15, 2022, including Rs 17.9 crore in debt-service reserve account (DSRA) which is equivalent to 3 month's EMI. The company also has undrawn debt limit of Rs 37.7 crore as on November 30, 2021 which will be adequate to fund the pending capex of Rs 25.0 crore in M S R Pacman, the under-construction asset. The company's cashflow from operations is estimated to increase in FY2023 with rentals commencing from Wing E from April 2022 and is expected to improve debt-coverage metrics.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company is able to lease the vacant area at a healthy pace resulting in comfortable debt coverage metrics. Specific positive trigger for upgrade could be five-year average DSCR increasing to 1.3 times.

Negative factors – Negative pressure on the company’s rating could arise if any decline in the occupancy level, delay in leasing of under-development asset or increase in debt results in increased debt / annual rent income of over 6.0 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Lease rental discounting (LRD) Rating Approach - Consolidation ICRA's policy on withdrawal of Credit Ratings
Parent/Group Support	NA
Consolidation/Standalone	While assigning the rating, ICRA has considered the consolidated operational and financial profile of MSRDB and Ramaiah Soft Tech Park (RSTP) given the strong operational and financial linkages between the two entities. The two entities are co-borrowers for some of the rated facilities.

About the company

MSRDB, incorporated in 2002, is promoted by Mr M R Seetharam. The company, along with RSTP (a firm in which MSRDB has 61% share), owns 14.0 lakh sq. ft. of leasable area in Helios Business Park (jointly developed with Kalyani Tech Park Private Limited through a JDA) located on the Outer Ring Road at Kadubeesanahalli in Bengaluru. MSRDB is also developing a commercial office project, MSR Pacman, with a leasable area of 2.5 lakh sq. ft. (company’s share) at Nagwara in Bengaluru.

Ramaiah Soft Tech Park (RSTP) is a partnership firm in which MSRDB has 61% profit sharing and the balance stake held by Mr. M R Seetharam and his family. RSTP has 50% economic interest in Wing C of Helios Buisness Park (with balance economic interest with MSRDB).

Key financial indicators

Consolidated	FY2020 (Audited)	FY2021 (Audited)
Operating Income (Rs. crore)*	59.4	62.8
PAT (Rs. crore)	6.5	16.6
OPBDIT/OI (%)	70.4	80.7
PAT/OI (%)	11.0	26.4
Total Outside Liabilities/Tangible Net Worth (times)	3.5	3.7
Total Debt/OPBDIT (times)	10.4	9.9
Interest Coverage (times)	1.4	1.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; note – Company reported figures does not include debt of associates and joint venture companies

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Feb 22, 2022	Dec 15, 2020		
1	LRD loan	LT	581.00	519.7	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2	Term loan	LT	122.00	-	[ICRA]BBB (Stable); Withdrawn	[ICRA]BBB (Stable)	-	-
3	Unallocated	LT	4.00	-	[ICRA]BBB+(Stable)	-	-	-

* as of Nov 30, 2021

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – LRD loan	Simple
Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Term loan	Feb 2021	-	Mar 2036	200.00	[ICRA]BBB+(Stable)
-	Term loan	Nov-2021	-	FY2033-35	381.00	[ICRA]BBB+(Stable)
-	Term loan	FY2019-21	-	FY2024-28	122.00	[ICRA]BBB(Stable); Withdrawn
-	Unallocated	-	-	-	4.00	[ICRA]BBB+(Stable)

Source: Company.

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: Details of entities consolidated

Company Name	Ownership	Consolidation Approach
Ramaiah Soft Tech Park	61%	Full Consolidation

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